



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**7th Annual Report to NSW Rice Growers
October 2018**

A report to New South Wales rice growers on the performance of the Board against its stated objectives and on the performance of SunRice as the holder of the Sole and Exclusive Export Licence.

Introduction

The Rice Marketing Board for the State of NSW (the Board) is pleased to present the seventh annual report to New South Wales rice growers on the performance of the Board against its stated objectives, and on the performance of SunRice as the holder of the Sole and Exclusive Export Licence (SEEL).

The *Rice Marketing Act 1983* (the Act) directs that all rice produced in NSW be vested in the Board. Vesting is based on the proposition that providing a single statutory authority, the Board, with the legal right to control the marketing of rice produced in NSW will yield net benefits to the NSW rice industry and to the general community.

In 2006, the domestic rice market was deregulated, and the Board now issues licences to Authorised Buyers who trade NSW rice within Australia. In 2017 the Board re-appointed Ricegrowers Limited, trading as SunRice, (SunRice) as the holder of the SEEL for the next five years, subject to an annual review.

A Proclamation by the NSW Governor outlines the objectives of the Board as:

- (a) To encourage the development of a competitive domestic market for rice;
- (b) To ensure the best possible returns from rice sold outside Australia based on the quality differentials or attributes of Australian rice; and
- (c) To liaise with and represent the interests of all NSW rice growers in relation to the Board's functions and objects.¹

Section A of this document reports on the performance of the Board against these objectives. Section B provides an assessment of the performance of SunRice as the SEEL holder, based on independent verification of the export price premium and the freight scale advantage by Syneca Consulting Pty Ltd.

Section A

The Board's performance against its stated objectives

- (a) The Board continues to encourage a competitive domestic market for rice by facilitating participation in the market in the following ways:
 - Reviews licence holders annual returns;
 - Regularly reviews the fee schedule for authorised buyers;
 - Meets with Authorised Buyers;
 - Provides information to rice growers and buyers, for example on the provision of rice seed supplies; and
 - Manages an annual audit of the NSW rice crop to ensure compliance with the Act.

¹ NSW Government Gazette No. 75, 22 May 2009, p. 2310

There are currently eleven licensed Authorised Buyers and the Board has issued licences to all parties who have applied for an Authorised Buyers Licence, have met the required conditions, and have signed the Authorised Buyers Licence Agreement.

(b) Ensuring the best possible returns on rice sold outside Australia

The Board again commissioned a report which has independently verified the 2017-18 export price premium and freight scale advantage as calculated by the SEEL holder SunRice. The Board also assesses the performance of the SEEL holder through an annual report on its business performance.

Other ways the Board meets its second object are:

- Conducting annual crop audits to ensure that all NSW grown rice is sold to an Authorised Buyer; and
- Monitoring rice exports to ensure they are consistent with the Act.

(c) The members of the Board liaised with NSW rice growers over the past twelve months, in relation to its objects and activities, through the following means:

- Attending the Ricegrowers' Association of Australia (RGA) branch meetings;
- Supporting industry activities including the RGA Annual Conference and rice field days;
- Attending the RGA Rice Leaders Forum in August 2017;
- Attending other regional rice meetings and the rice field days in the Murray-Riverina and Northern Rivers regions;
- Providing information on the Board's website, including Annual Reports, regular news updates, Authorised Buyers contact details, Board policies and the Charters of the Board and Committees;
- Communicating with the President and Executive Director of the RGA on issues relevant to the rice industry;
- Providing regular articles in the RGA newsletter, "Rice Matters";
- Inviting all NSW rice growers to the Board's Annual Meeting held every November; and
- Providing support to NSW rice industry development activities.

Section B

Summary of SunRice's Performance as SEEL Holder

SunRice bought approximately 99% of the 2017 NSW rice crop, which was then milled and marketed during 2017-18. SunRice achieved a net profit after tax of \$45million.² In 2017-18 SunRice, through an appropriate application of the vesting arrangements, achieved an export price premium of \$21.7million.

(a) Independent verification of the 2017-18 Export Price Premium

International rice markets are subject to various government interventions including tariffs, quotas and world trade obligations. In addition, overseas markets have specific preferences as to the variety

² Ricegrowers Limited 2018 Annual Report, p. 55

of rice they prefer³. SunRice's new five year strategy is to maintain NSW rice in the premium markets while supplying high volume low value markets with globally traded rice, for example from Vietnam.⁴

The export price premium is a measure of the performance of SunRice in adding value for NSW rice growers by exporting NSW rice to overseas markets. The export price premium calculation is the difference between the price achieved by SunRice and a benchmark for competitor prices in that market.

Syneca Consulting Pty Ltd was engaged to perform an independent review of the calculation of the export price premium and freight scale advantage for the year ending 30 April 2018.⁵

The verification process is divided into three steps:

- Assessment of the soundness of the methodology adopted by SunRice;
- Verification of the assumed values of the inputs that go into the calculations; and
- Checking the accuracy of the calculations.

Based on the findings of this review, and its own monthly review of SunRice's operational and financial results and position, the Board finds that SunRice as the holder of the SEEL, continues to deliver substantial benefits to NSW rice growers.

The Board can also confirm the existence of other substantial benefits to growers as a result of SunRice holding the SEEL.

The Syneca Consulting report highlighted the following:

- An export price premium delivered to growers of \$21.7million, down from \$26.4million in the previous year;⁶
- A freight scale advantage of \$7.81million (2016-17: \$2.45million) in addition to the export price premium;⁷
- Average rice prices achieved by SunRice reached a maximum in 2016-17 but have declined in the latest year, while the trend in the benchmark competitor price has been a steady rise since 2013-14.⁸
- There has been substantial movement in the export price premium for the various markets over the past seven years. On balance, the export price premium shows no dramatic changes from year to year, and the conclusion drawn by the independent reviewer is that movement does not throw doubt on the export price premium as a valid measure for the performance of SunRice under the SEEL.⁹
- Distortions due to exchange rate fluctuations are not considered significant for the 2017-18 year.¹⁰

³ Syneca Consulting Pty Ltd. Verification of the calculations of the export price premium and freight scale advantage report, 2018, Commercial-in-confidence, p.2.

⁴ Ricegrowers Limited 2018 Annual Report. p. 11

⁵ SunRice's financial year is from 1 May 2017 to 30 April 2018.

⁶ Syneca Consulting Pty Ltd. Verification of the calculations of the export price premium and freight scale advantage report, 2018, Commercial-in-confidence, p. 12

⁷ Ibid, p. 25.

⁸ Ibid. p.17

⁹ Ibid. p.19

¹⁰ Ibid. p.21

(b) Assessment of SunRice in relation to stated objectives

1. Delivery of export price premiums to NSW rice growers

i. Value of export price premium for 2017-18 year

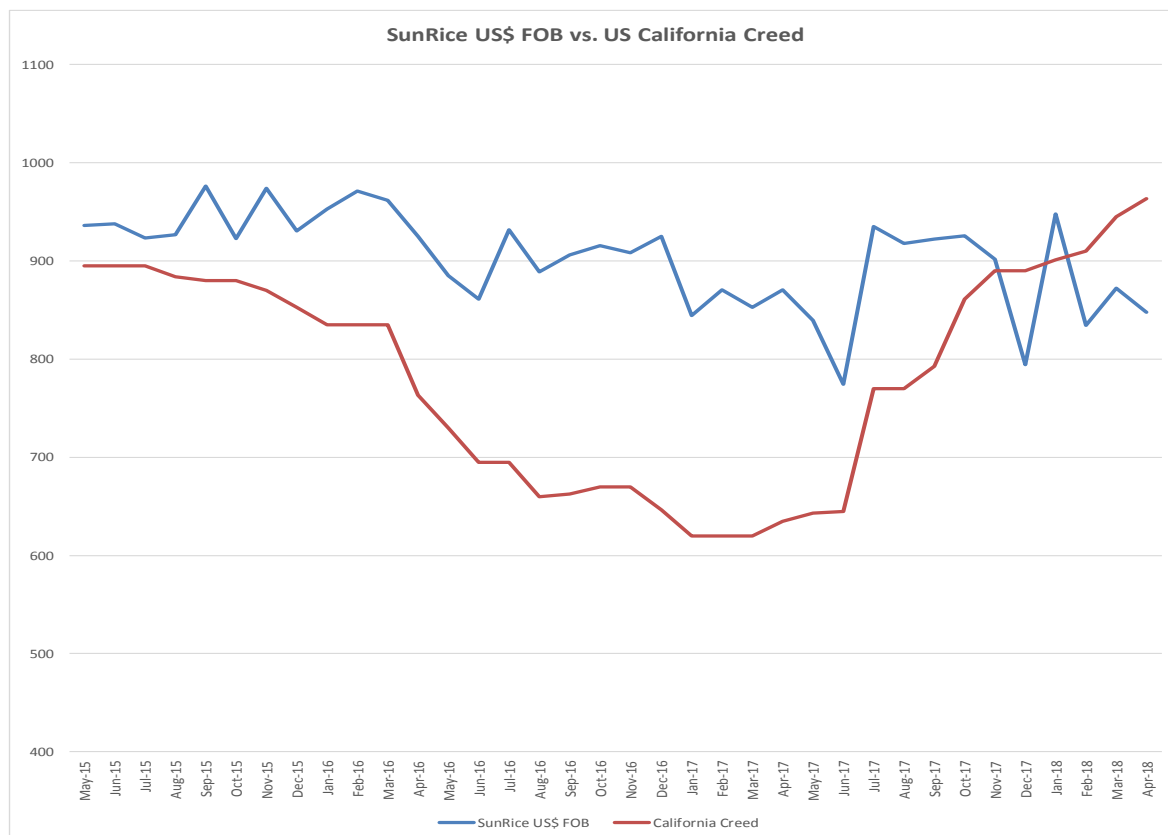
An export price premium of \$21.7million for the 2017-18 year (2016-17: \$26.4million) was achieved by SunRice as the current holder of the SEEL.¹¹

The export price premium is calculated for each of the five major export regions in which SunRice operates. These markets comprise the Pacific Majors (Papua New Guinea (PNG) and Solomon Islands), the Middle East, World Trade Organisation (WTO) Markets (Japan, Taiwan and South Korea), New Zealand, and the Pacific Islands.

The premium is calculated as the difference between the average local SunRice sale price, less the average weighted local competitor sale price, multiplied by the volume sold.

ii. Three year trend of the average Free on Board (FOB) Price

The following graph displays the three year trend of the average FOB price achieved by SunRice Medium Grain rice in export markets (for exported Australian rice) compared to the average FOB Creed Report medium grain price¹². The graph shows that SunRice medium grain has consistently traded above the average Creed Report medium grain until late 2017.



¹¹ Ibid. p.12.

¹² Ricegrowers Limited, SEEL Annual Review Response, September 2018, Commercial-in-Confidence, p.3.

iii. Summary of trends or developments in key markets as reported by SunRice

Due to brand strength, SunRice remained the dominant market player in the Pacific region and in most of the Middle East countries¹³.

World production of rice in 2018 slightly decreased on 2017 production levels (-0.4%)¹⁴ and world markets are at a ten year low.¹⁵ With international trading reduced by the larger 2017 Riverina crop being placed back into key export markets, SunRice's international rice revenue declined by 10% to \$457million.¹⁶ International rice revenue is revenue from rice that is not grown in NSW.

In 2017-18 SunRice signed a memorandum of understanding with An Giang Province in Vietnam to secure access to 10,000 hectares of land for rice production.¹⁷ The SunRice strategy is to secure rice supplies to ensure key markets that demand Riverina rice remain open. Riverina rice is being directed to the highest returning international markets where possible.¹⁸

iv. Demonstration of Freight Scale Advantage to Rice Growers

This measure of benefit of the SEEL refers to freight savings that SunRice can obtain as a result of the current volumes of rice exports and the pattern of trade during the year, and that would not be available to individual rice growers or smaller consortiums. Freight scale advantages arise due to the benefit of delivering larger volumes into export markets thereby lowering delivery costs for NSW rice into export markets.

SunRice produced a total freight scale advantage of \$7.81million (2016-17: \$2.45million) in 2017-18. If volumes were lowered as a result of other exporter participation, the scale advantage that is passed back to growers would be significantly reduced.

The calculation by SunRice of the freight scale advantage was estimated based on discount ranges/indications of the volume discounts provided by six freight companies, and is not based on a specific analysis of actual discounts received. The analysis for freight scale advantage is restricted to container shipping and excludes the Japanese market for which rice is shipped in bulk.¹⁹

v. Demonstration of the Advantages of Scale to Rice Growers

A component of the paddy price for rice grown in NSW and purchased by SunRice is derived from the degree of efficiency in rice-milling. SunRice continues to report to the Board on its milling capacity management. Current NSW milling capacity on a 24/7 basis is 880,000 paddy tonnes. This represents a theoretical utilisation of 70.5% based on the 2017-18 crop size of 620,000 tonnes.²⁰

¹³ Ibid. pp. 5-12

¹⁴ Ibid p.3

¹⁵ Ricegrowers Limited Annual Report 2018, p.2.

¹⁶ Ricegrowers Limited Annual Report 2018 p. 12

¹⁷ SunRice CEO presentation at AGM (20/9/18) <https://www.nsx.com.au/ftp/news/021735778.PDF>

¹⁸ SunRice report at RGA AGM (3/8/18) <https://www.nsx.com.au/ftp/news/021735505.PDF>

¹⁹ Syneca Consulting Pty Ltd, Verification of calculations of the export price premium and freight scale advantage report, 2018, Commercial-in-confidence, p.25

²⁰ Ricegrowers Limited, SEEL Annual Review Response, September 2018, Commercial-in-Confidence, p. 18.

2. Assessment of the ongoing delivery of other secondary benefits provided by the SEEL holder to NSW rice growers

- i. Ability to successfully compete with imported, typically long grain, rice.
 - SunRice's ability to compete against imported long grain and jasmine rice is directly related to the size of the Riverina grown crops of this type.
 - Due to its brand strength in the retail channel, SunRice is able to compete against private labels and command a substantial shelf premium.
- ii. Demonstrated ability to respond to changes in conditions and continue to operate profitably
 - Through the adoption of their corporate strategy, SunRice has seen the demand for products increase significantly over the past few years.
 - Net profit before income tax was \$63million in 2017-18, a 57% increase in profit compared to 2016-17.²¹
- iii. Contribution to Research and Development
 - The majority of SunRice's investment in research and development is managed through their Australian Rice Partnership with AgriFutures and NSW Department of Primary Industries and focuses on rice breeding.²²
 - SunRice continues to provide funding for rice research and development to its subsidiary, Rice Research Australia Pty Ltd.
 - Collaboration continues with other partners, including North Queensland Rural R&D for Profit project, Potential Food Agility CRC Grain Quality project, ACIAR and others.²³
- iv. Buyer of last resort and track record of good returns
 - A condition of the SEEL agreement between SunRice and the Board, is that SunRice be the buyer of last resort. This provides certainty for growers that their NSW crop will be sold if it is of merchantable quality.
 - SunRice has an unbroken record of paying the indicated returns, or better, to growers on or before scheduled payment dates.
 - SunRice again offered fixed price contracts and varietal premiums to Riverina rice growers in 2017-18.²⁴
- v. Operating a transparent pool and regularly updating growers on price trends and payment dates
- vi. Financing of crop at competitive interest rates

²¹ Ricegrowers Limited Annual Report 2018, p. 55

²² Rural Industries Research and Development Corporation (now AgriFutures) Rice Program Five Year RD&E Plan 2016/17 to 2021/22, p.15.

²³ Ricegrowers Limited, SEEL Annual Review Response, September 2018, commercial-in-confidence, p. 2(b)

²⁴ Ricegrowers Limited Annual Report 2018, p.9

- SunRice does not profit from forward finance arrangements as happens in other industries and it currently underwrites these financial arrangements.
- vii. Provision of rice storage
- Paddy storage is provided by SunRice through its subsidiary, Australian Grain Storage Pty Ltd.
- viii. Pure Seed production and supply to rice growers
- SunRice operates a quality assured Pure Seed Program to supply registered seed for all commercial rice varieties to growers.
 - Its subsidiary, Rice Research Australia Pty Ltd produces breeders' seed of all varieties for the Pure Seed Program.
- ix. Strength of products and related brands to drive ongoing demand
- SunRice continues to invest in its brands, through product innovation, and consistent above and below the line support to its branded products to command the premiums achieved in the market.

3. Impact of changes in the availability of water

Reduced water entitlement continues to have an impact on rice production. SunRice has indicated that the impact is twofold: irrigators have less water to grow crops and temporary water prices have escalated in some seasons to make water purchase for rice production unviable. Additional competition for water from other crops, such as cotton and nuts, is adding to the impact.²⁵

4. Market Position

Rice consumption in Australia is growing, being driven by sales in traditional food service channels such as restaurants and sushi chains, and also by favourable immigration trends. SunRice's Australian rice is the market leader in the Australian retail sector.

There has been no material change in the business segments of SunRice during 2017-18.

5. Financial Performance of SunRice²⁶

The SunRice financial statements indicate a strong performance in 2017-18 with an increase in rice pool revenue after a difficult prior year. The Riverina crop size was over 600,000 paddy tonnes. SunRice delivered a net profit before tax of \$63million and growers received \$378.66 per tonne for medium grain Reiziq (2016-17: \$415), affected by increased foreign competition. The rice pool revenue was \$440 million in 2017-18 (before inter-segment eliminations) generated from Australia

²⁵ Ricegrowers Limited, SEEL Annual Review response, September 2018, Commercial-in-Confidence, p. 12.

²⁶ The information in this section is taken from Ricegrowers Limited's Annual Report 2018 including the audited Financial Statements.

(38%), the Middle East (30%), Asia (27%), the Pacific (3%) and other overseas markets (2%). The rice pool revenue is from the milling, marketing and distribution of rice from the Riverina.

i. Income Statement

- Revenue from continuing operations totaled \$1.18 billion in 2017-18 (2016-17: \$1.11 billion),
- Expenses were \$1.12 billion (2016-17: \$1.07 billion), in line with higher Australian production,
- Net Profit After Tax was \$45 million (2016-17: \$34 million), an increase of 32%,
- Results by segment indicate all segments were profitable in 2017-18,
- Dividend paid to B Class shareholders was 33 cents per B class shareholder, (2016-17: 33 cents),
- Earnings per share was 75.9 cents in 2017-18 compared to 61.3 cents in the prior year.

ii. Balance Sheet

- Net Assets were \$434 million in 2017-18, an increase of \$29 million (2016-17: \$405 million),
- Retained earnings increased to \$294 million, from \$270 million in 2016-17,
- Current Ratio (current assets to current liabilities) decreased to 1.6 (1.9 in 2016-17),
- Return on capital of 15.1% in 2017-18 was up compared to the prior year (2016-17: 10.3%).

iii. Cash Flow

- SunRice's net cash position increased by \$73 million during the 2017-18 year (2016-17: \$65 million decrease).

iv. Other relevant financial matters for the year to 30 April 2018

- Total liabilities have increased from \$406 million in 2016-17 to \$600 million in 2017-18
- SunRice's currency exposures are managed under its Treasury policy. The company is compliant with the requirements of the policy.
- Capacity to pay growers for paddy: seasonal borrowing facilities of \$235M to meet grower payments decreased by \$175M compared to the prior year.
- Capacity to pay debt, seasonality of debt, and interest cover: Ability of SunRice to meet financial commitments is tested regularly. All bank loan covenants have been met.
- Interest rate exposures are managed under SunRice's Treasury policy. SunRice is compliant with the requirements of the policy.
- Capital Raisings: A Dividend Re-investment Plan for B-class shareholders occurred in July 2017 and a Grower Share Purchase Plan was launched in September 2017.
- Fixed Asset Management: Capital investments by SunRice during 2017-18 totaled \$22 million (2016-17: \$22 million).

6. Changes of Board and senior management personnel of SunRice

During the 2017-18 year, Mr Noel Graham retired from the SunRice Board, and Mr Ian Mason joined the Board. Mr John Brennan, Chief Financial Officer left SunRice in 2017-18, and Mr Dimitri Courtelis took up that position.

7. Risk management - competition from other agricultural products

SunRice monitors competition from other summer and winter crops and focuses on a range of initiatives to make rice production as competitive as possible and to encourage Riverina irrigators to make rice their first choice summer crop.

Conclusion

The Rice Marketing Board for the State of NSW continues to deliver against the objectives of the *Rice Marketing Act 1983*, to the benefit of all NSW rice growers.

The Board is confident its administration of the SEEL, and the appointment of Ricegrowers Limited to operate this licence, results in both export price premiums and substantial secondary benefits to rice growers.

The Board will continue to work with the NSW Government and all rice growers to monitor the benefits accruing from the current arrangements.